



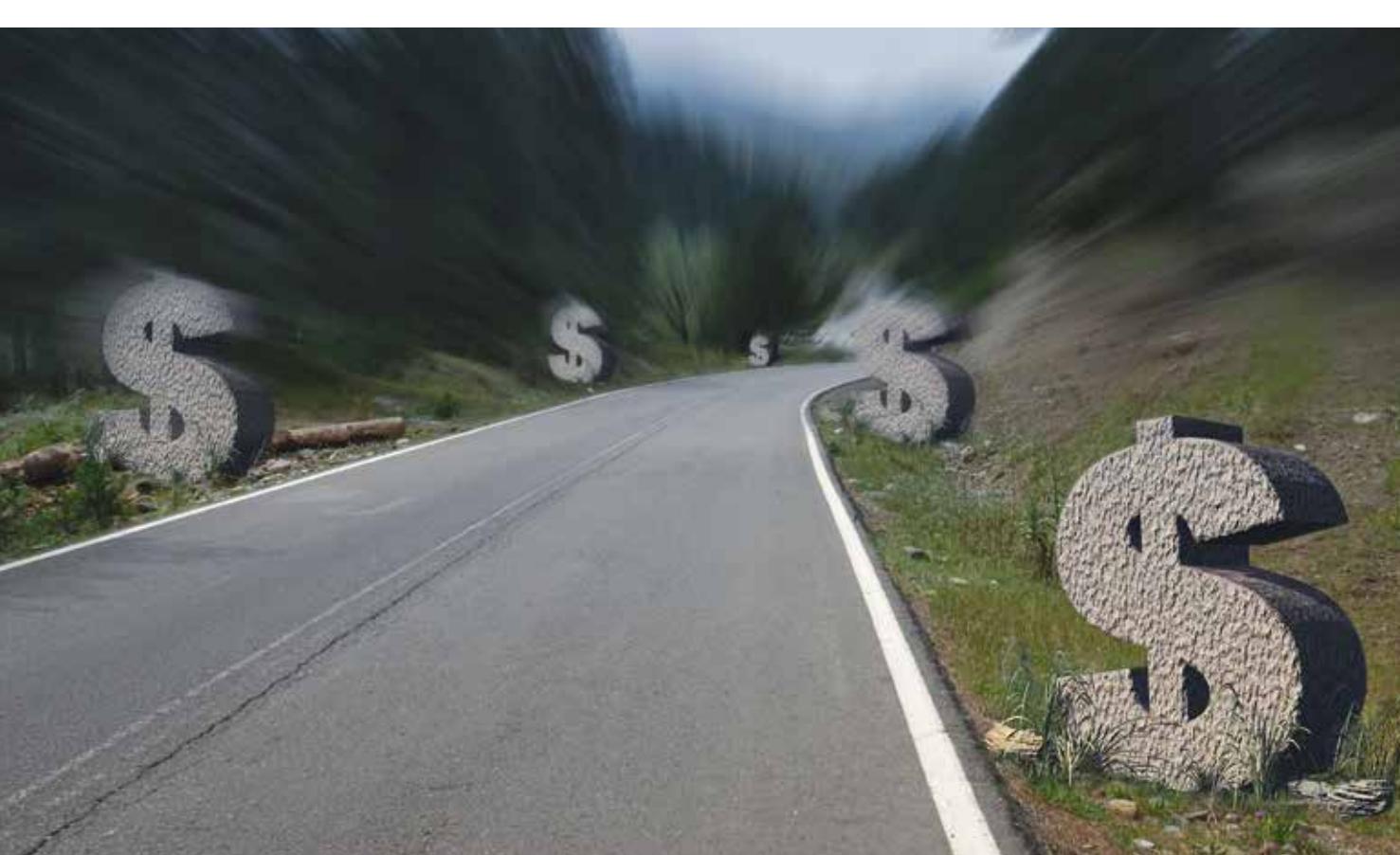
# Better Buying Power

## A Progress Assessment from the Defense Acquisition Executive

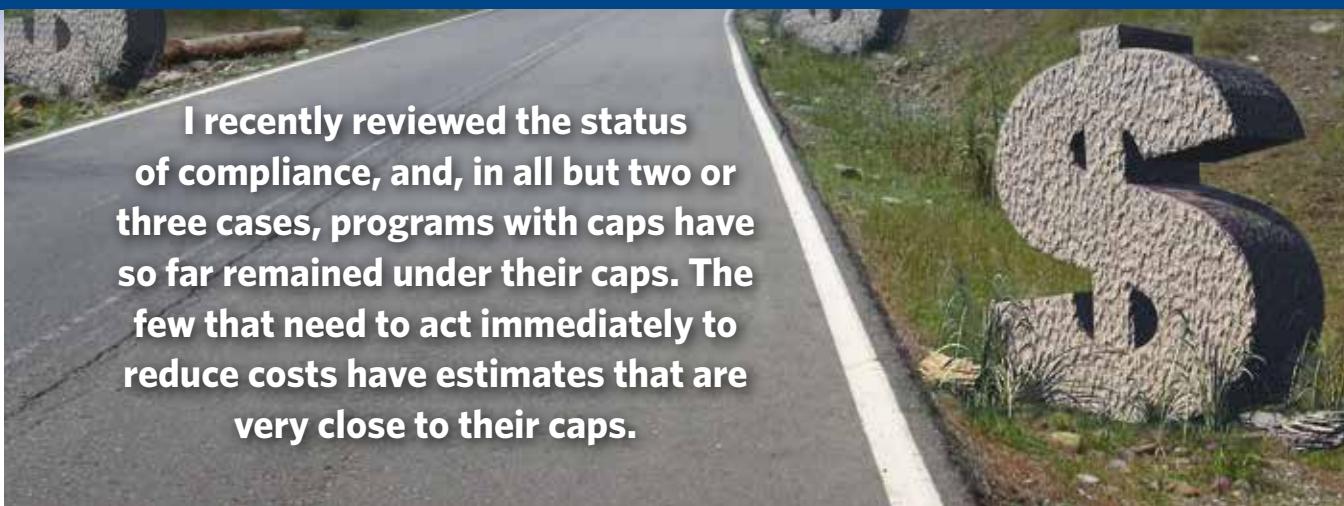
*Frank Kendall*

We are now four years since Dr. Carter and I began work on the first iteration of Better Buying Power, the label Dr. Carter gave to the original set of policies we promulgated as part of then Secretary Gates' efficiency initiatives in 2010. In the intervening years, I've released the second iteration, or BBP 2.0 as it's called, and I've also recently made some statements in public that BBP 3.0 may be on the horizon. Has all this made a difference? I believe it has, although I'm also certain that we have ample room for

additional gains in productivity and other improved outcomes. Despite some comments I've made about BBP 3.0, the commitment to the enduring practices and policies from both the original BBP and BBP 2.0 remains. The whole concept of Better Buying Power is of a commitment to continuous incremental improvement; improvement based on experience, pragmatism and analysis of the evidence (i.e., the data). Four years on, as we begin to consider the next steps we may decide to take, it's a reasonable time to take a look at what we have done so far.



<b>Report Documentation Page</b>			Form Approved OMB No. 0704-0188	
<p>Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.</p>				
1. REPORT DATE <b>AUG 2014</b>	2. REPORT TYPE	3. DATES COVERED <b>00-00-2014 to 00-00-2014</b>		
<b>4. TITLE AND SUBTITLE</b> <b>Better Buying Power: A Progress Assessment from the Defense Acquisition Executive</b>			5a. CONTRACT NUMBER	
			5b. GRANT NUMBER	
			5c. PROGRAM ELEMENT NUMBER	
<b>6. AUTHOR(S)</b>			5d. PROJECT NUMBER	
			5e. TASK NUMBER	
			5f. WORK UNIT NUMBER	
<b>7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES)</b> <b>Defense Acquisition University, Defense AT&amp;L, 9820 Belvoir Road, Fort Belvoir, VA, 22060-5565</b>			8. PERFORMING ORGANIZATION REPORT NUMBER	
<b>9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)</b>			10. SPONSOR/MONITOR'S ACRONYM(S)	
			11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
<b>12. DISTRIBUTION/AVAILABILITY STATEMENT</b> <b>Approved for public release; distribution unlimited</b>				
<b>13. SUPPLEMENTARY NOTES</b>				
<b>14. ABSTRACT</b>				
<b>15. SUBJECT TERMS</b>				
<b>16. SECURITY CLASSIFICATION OF:</b>			<b>17. LIMITATION OF ABSTRACT</b> <b>Same as Report (SAR)</b>	<b>18. NUMBER OF PAGES</b> <b>7</b>
a. REPORT <b>unclassified</b>	b. ABSTRACT <b>unclassified</b>	c. THIS PAGE <b>unclassified</b>		



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When I introduced the second iteration of Better Buying Power, we had already made a number of adjustments (continuous evolutionary improvements) to the initiatives in the first iteration. Under 2.0, most of the BBP 1.0 initiatives continued, either under the 2.0 label or just as good best practices we may not have emphasized under BBP 2.0. Where changes were made, this was clearly articulated in 2.0. For example, the overly restrictive guidance on fixed-price incentive contract type (never intended to be as prescriptive as it may have been interpreted to be) was changed to emphasize sound decision making about the best contract type to use in a given circumstance. We also relaxed the model constraints on time to recompete service contracts that proved too restrictive.

In general, BBP 2.0 moved us in an incremental way from the set of model rules or best practices that tended to characterize BBP 1.0, to a recognition that, in the complex world of defense acquisition, critical thinking by well informed and experienced acquisition professionals is the key to success—not one-size-fits-all rules. This is equally true of the acquisition of contracted services for maintenance, facility support, information technology, or anything else we acquire from industry, as it is for the various aspects of the large programs that we normally associate with defense acquisition.

I won't cover every initiative in BBP 2.0, but in general here's where I think we are in improving defense acquisition, and where I think we still need to go on these initiatives.

### Achieving Affordable Programs

Over the past four years we have continuously increased the number of major programs with assigned affordability targets (Milestone A or before) or caps (Milestone B) as programs come through the milestone review process. I recently reviewed the status of compliance, and, in all but two or three cases, programs with caps have so far remained under their caps. The few that need to act immediately to reduce costs have estimates that are very close to their caps. I believe we

have been successful in applying the caps. The affordability analysis process is also detailed in the new Department of Defense Instruction (DoDI) 5000.02, and in most cases this process is being followed by service programming communities who do the long-term budget analysis needed to derive caps on sustainment and production. For smaller programs that are a fraction of the considered capability portfolio, assigning a cap can be problematic, but it still needs to be done to instill discipline in the requirements process. Looking forward, the Department has a significant problem in the next decade affording certain portfolios—strategic deterrence, shipbuilding and tactical aircraft are examples. This situation will have to be addressed in the budget process, but I think we can say that we are making reasonable progress in the acquisition system in constraining program cost, especially for unit production cost, which is easier to control than sustainment. Nevertheless, we have challenges particularly in understanding long-term affordability caps outside the five-year planning cycle, especially under a sequestration level budget scenario.

### Controlling Cost Throughout the Acquisition Life Cycle

The implementation of "should-cost based management" is well under way, but work is still needed to instill this concept deeply in our culture and the way we do business. "Should cost" challenges every DoD manager of contracted work to identify opportunities for cost reduction, to set targets to achieve those reductions, and to work to achieve them. Managers at all levels should be taking and requiring that these steps be taken and rewarding successful realization of cost savings. I am seeing more and more of the desired behavior as time passes, but I am also still seeing cases where implementation seems to be more token than real. We also have work to do in understanding and teaching our managers the craft of doing "should cost" for our smaller programs (e.g., Acquisition Category IIIs, Services, etc.)—this remains a work in progress. Overall, "should cost," as a single measure alone, if fully implemented, will cause fundamental change in

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how we manage our funds. The letter the Under Secretary of Defense (Comptroller) and I signed two years ago laying out our expectations for major program obligation rate reviews is still operative; the job is not to spend the budget, it is to control costs while acquiring the desired product or service and to return any excess funds for higher-priority needs. The chain of command still has to learn how to support that behavior instead of punishing it. For major program "should cost" realization, the saved funds will continue to remain with the Service or Agency, preferably for use in the program or portfolio that achieved the savings.

We are making progress at measuring and understanding the performance of the acquisition system. Last year I published

affordability caps and expanded use of Configuration Steering Boards or "provider forums" are also strengthening the linkage to the requirements communities. There is an ancient debate about which comes first, requirements or technology. The debate is silly; they must come together and it cannot be a one-time event in a program but continuous. Requirements that are not feasible or affordable are just so many words. A program that doesn't meet the user's needs is wasted money.

The BBP 2.0 program to increase the use of defense exportability features in initial designs is still in the pilot stage. I believe this concept is sound, but the implementation is difficult because of some of the constraints on our budgeting, appropriations and contracting systems. Support for U.S. defense

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the first edition of the Annual Report on the Performance of the Defense Acquisition System. The next report should be published at about the time that this article goes to press. Each year we will try to expand the data set with relevant information about all aspects of defense acquisition performance. We will also add analysis that will help us understand the root causes of good and poor results and that correlates the results we are seeing with our policies. We need to make decisions and track our performance via data and robust analysis, not anecdote or opinion. Further, it isn't always easy to look in the mirror, and some government institutions or industry firms may not like what the report reveals, but the road to improvement has to begin with an understanding of where the problems lie.

I believe we are also gaining ground with regard to cooperation between the requirements and acquisition communities. My own partnership with the Vice Chairman of the Joint Chiefs of Staff and the Joint Requirements Oversight Council is intended to set the example in this area. We meet frequently to discuss issues of mutual concern and to reinforce each other's roles in the requirements and acquisition systems. The use of

exports pays large dividends for national security (improved and closer relationships), operationally (built-in interoperability and ease of cooperative training), financially (reduced U.S. cost through higher production rates), and industrially (strengthening our base). This initiative will continue on a pilot basis, but hopefully be expanded as the implementation issues are identified and worked out.

## Incentivize Productivity and Innovation in Industry and Government

Our analysis of the data shows that we have more work to do in aligning profitability with performance. This year's *Annual Report on the Performance of the Acquisition System* will provide the data. In most cases we get it right—good performance leads to higher profits, and poor performance leads to lower profits. In some cases, however, there is no discernable impact of performance on margins, and in a few cases profit actually moves in the opposite direction from performance. In addition to getting the correlation right, we also need to make the correlation stronger and to tie increased rewards to real accomplishments. We want win-win business deals, but we aren't always obtaining them.

In BBP 2.0, we modified the guidance from BBP 1.0 to focus attention on professional judgments about the appropriate contract type, as opposed to emphasizing one type over others. As we analyze the data on major programs, it shows that in general we get this right, particularly with regard to choices between fixed-price and cost-plus vehicles. We are still in the process of providing updated guidance in this area. One thing is clear from the data: Where fixed price is used, there is benefit to greater use of fixed-price incentive vehicles, especially in production contracts and even beyond the initial lots of production. We are increasing the use of fixed-price incentive contracts in early production—and it is paying off.

We have begun to monetize the value of performance above threshold levels, however this practice is still in its early phases of implementation. Requirements communities usually express a “threshold” level of performance and a higher “objective” level of performance, without any indication of how much in monetary terms they value the high level of capability. It represents a difficult culture change for our operational communities to have to put a monetary value on the higher than minimum performance levels they would prefer—if the price were right. The Air Force Combat Rescue Helicopter was the first application of this practice now in the process of being applied more widely across the Department. Forcing Service requirements and budget decision makers to address the value they place on higher performance (which has nothing to do with the cost) is leading to better “best value” competitions where industry is well informed about the Department’s willingness to pay for higher performance, innovation is encouraged and source selections can be more objective.

One of the strongest industry inputs we received in formulating the BBP 2.0 policies was that the “lowest price, technically acceptable” (known as LPTA) form of source selection was being misused and overused. We have provided revised policy guidance that, like other contracting techniques, LPTA should be used with professional judgment about its applicability. This technique works well when only minimal performance is desired and contracted services or products are objectively defined. LPTA does simplify source selection, but it also limits the government’s ability to acquire higher quality performance. I believe we have been successful in reducing the use of LPTA in cases where it isn’t appropriate, but we are open to continued feedback from industry on this.

Instituting a superior supplier incentive program that would recognize and reward the relative performance levels of our suppliers was a BBP 1.0 initiative that we have had great difficulty implementing. I’m happy to report that the Navy pilot program has completed the evaluation of the Navy’s top 25 contracted service and product suppliers. The evaluation used

the Contractor Performance Assessment Rating System (or CPARS) data as its basis. Major business units within corporations were assessed separately. The Navy is providing results divided into top, middle and lower thirds. Business units or firms in the top third will be invited to propose ways to reduce unneeded administrative and overhead burdens. The Superior Supplier Program will be expanded DoD-wide over the next year. We expect this program to provide a strong incentive to industry to improve performance and tangible benefits to our highest performing suppliers. Finally, we expect to build on this Navy pilot and expand it to the other Services.

BBP 2.0 encouraged the increased use of Performance Based Logistics (PBL) contract vehicles. These vehicles reward companies for providing higher levels of reliability and availability to our warfighters. If the business deal is well written and properly executed, then PBL does provide cost savings and better results. The data shows that we have not been able to expand the use of PBL for the last two years and that prior to that the use was declining. Declining budgets as well as the budget uncertainty itself, and therefore contract opportunities, are part of this story, as is the fact the PBL arrangements are harder to structure and enforce than more traditional approaches. Those factors, combined with the imposition of sequestration, furloughs and a government shutdown last year are likely to have suppressed the increased use of PBL. This area will receive additional management attention going forward; we are going to increase the use of this business approach.

Another major input to BBP 2.0 received from industry concerned the large audit backlog with the Defense Contract Audit Agency (DCAA). The backlogs both delay contract close-out payments and extend the time before new awards can occur. Pat Fitzgerald, the DCAA Director, has worked very closely with the acquisition community to address this. Pat is a regular participant in the monthly Business Senior Integration Group meetings that I chair to manage BBP implementation. Under Pat’s leadership, DCAA is well on the way to eliminating most of the incurred cost audit backlog and expects to effectively eliminate the areas with the most excessive backlog over the next year. This is being accomplished despite all the workforce issues the Department has been forced to deal with.

Strengthening discretionary research and development by industry was an early BBP initiative. I am concerned that industry is cutting back on internal research and development as defense budgets shrink. This is an area we have tried to strengthen under BBP. We have made good progress in providing an online forum for industry to understand the Department’s technology needs and internal investments, and for industry to provide research and development results to government customers. If company R&D isn’t being conducted,

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then these steps certainly can't substitute for doing the actual research. We will be tracking these investments carefully going forward, and I will be working with defense company chief executives and chief technology officers to review their investment plans. The wisest course for industry is to continue adequate investments in R&D so as to be positioned for the inevitable future increase in defense budgets. Now is the time for all of us to invest in research and development. This requires discipline and commitment to the long-term as opposed to short-term performance, however. Most of the chief executives I have discussed this with share this perspective; they recognize that the Department needs industry partners who are in this for the long term with the Department.

## **Eliminate Unproductive Processes and Bureaucracy**

I would like to be able to report more success in this regard, but I am finding that bureaucratic tendencies tend to grow and to generate products for use within the bureaucracy itself, together with the fact that the comfortable habits of years and even decades are hard to break. This is all even truer, in my opinion, within the Services than it is within the Office of the Secretary of Defense (OSD). On the plus side, however, we are making progress and I have no intention of stopping this effort.

I have taken steps to reduce the frequency of reviews, particularly reviews at lower staff levels. Whenever possible we are combining OSD and Service reviews or using senior-level in-depth reviews without preceding staff reviews and briefings. I have also instituted an annual consideration of major programs for delegation to the Services for management. Where the program risk has been significantly mitigated and/or all major Department investment commitments have already been made, I am delegating programs for Service oversight. I am also looking for opportunities to conduct pilot "skunk works" type oversight of programs which will, among other features, substitute in-depth but short on-scene reviews for the numerous formal documents with attendant staffing process that are normally required to support milestone decisions. I have also set firm and short timespans for staff review of some key documents so that issues are identified quickly and elevated rather than debated endlessly at the staff level.

Our efforts to increase the role and primacy of the acquisition chain of command are also making progress, but have additional room for improvement. A full-day workshop the Service Acquisition Executives (SAEs) and I recently conducted with all the Department's Program Executive Officers (PEOs) was very effective in communicating our priorities and in obtaining feedback on Better Buying Power and other

initiatives. That feedback will be very helpful as we adjust our policies going forward. I also recently conducted a half-day workshop with our PEOs and program managers who manage and direct the Department's business systems. This is an area where I feel strongly that we can reduce some of the burdensome overhead and bureaucracy associated with these programs. I will need the support of the Congress to achieve this, however.

Time is money, and reducing cycle time, particularly long development times and extended inefficient production runs would improve the Department's productivity. I have reviewed the data on development timelines and they have increased, but not on average by outrageous amounts; the average increase in major program development time over the last few decades is about nine months. Much of this increase seems to be driven by longer testing cycles, brought on by the growth in the number of requirements that have to be verified, and by the increased complexity and size, and therefore development time, of the software components of our programs. We are still collecting data and analyzing root causes of cycle time trends, but the most debilitating one is obvious: Budget cuts in general and sequestration cuts in particular are forcing the Department to adopt low production rates, in some cases below the theoretical minimum sustaining rate. Lowering production rates is stretching out our production cycle time and raising unit costs almost across the board.

## **Promote Effective Competition**

Competition works. It works better than anything else to reduce and control costs. Unfortunately, the current data shows that the Department is losing ground in the percentage of contracted work being let competitively each year. The erosion is not huge, and I believe that decreasing budgets, which limit new competitive opportunities, are a major root cause. The Air Force launch program provides an example; we were moving aggressively toward introducing competition when budget cuts forced the deferral of about half the launches scheduled for competition. This is an area that I will be tracking closely and managing with the SAEs and agency heads in the coming months to try to reverse the recent trend.

Under BBP, we have recognized that for defense programs, head-to-head competition isn't always viable, so we are emphasizing other steps or measures that can be taken to create and maintain what we call "competitive environments." Simply put, I want every defense contractor to be worried that a competitor may take his work for DoD away at some point in the future. As I review programs, I ask each program manager and PEO to identify the steps they are taking to ensure the existence of a competitive environment for the efforts they are leading.

Open systems provide one opportunity to maintain competition below the prime level and to create a competitive environment for any future modifications or upgrades. Open systems and government “breakout” of components or subsystems for direct purchase are not necessarily in the interest of our primes, so careful management of interfaces and associated intellectual property, especially technical data rights, is key to achieving competition below the prime level and for future upgrades. Industry has a right to a fair price for intellectual property it has developed, but the government has many inherent rights and can consider the intellectual property implications of offerings in source selection. Our principal effort in this area has been to educate and train our workforce about how to manage this complex area. This is an effort that will

work placed with small businesses, this has been done with the recognition that work allocated to small businesses will be provided through competition, and competition that involves firms without the overhead burdens of our large primes. At this time, the trends in our small business awards are positive, despite the difficulties of the last few years, and I have strong expectations for our performance this fiscal year.

The Department continues to emphasize competitive risk-reduction prototypes—when the business case supports it. This best practice isn’t called for in every program; the risk profile and cost determine the advisability of paying for competitive system-level prototypes. The available data shows that when we do acquire competitive risk-reduction prototypes



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bear fruit over time and in which I believe reasonable progress is being made. As we mature our practice in this area, we need to also guard against overreaching; industry cannot be forced or intimidated into surrendering valid property rights, but the government has to exercise its rights and protect its interests at the same time as it respects industry’s. Further, we in the government must have strong technical and programmatic capabilities to effectively implement open systems. The Long Range Strike Bomber program is applying modular open systems effectively in its acquisition strategy and provides a good example of how this balanced approach can work—again, if there is strong technical leadership by the government.

Small businesses provide an excellent source of competition. Due in no small part to the strong leadership of the Department’s Office of Small Business Programs Director, Andre Gudger, we have made great progress over the last few years. We have improved our market research so that small business opportunities are identified and we have conducted numerous outreach events to enable small businesses to work more effectively with the Department. While much of our effort has been directed toward increasing the amount of Department

we have to work harder on the government side to ensure that the relevant risk associated with the actual product we will acquire and field is really reduced. BBP 2.0 reinforces this maxim, and I believe we have been correctly applying it over the last few years. This is one of many areas where simply “checking the box” of a favored acquisition technique is not adequate; real understanding of the technical risk and how it can best be mitigated is necessary. It is also necessary to understand industry’s perspective on these prototypes; industry cares much more about winning the next contract than it does about reducing the risk in the product that will be developed or produced under that contract. Competitive prototypes are successful when government acquisition professionals ensure that winning and reducing risk are aligned. The data shows that in many past cases they were not aligned.

### **Improve Tradecraft in Acquisition of Services**

We have increased the level of management attention focused on acquisition of services under both BBP 1.0 and 2.0. I still see this as the greatest opportunity for productivity improvement and cost reduction available to the Department. I have assigned my Principal Deputy, Alan Estevez, to lead

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the Department's initiatives in this area. He is working with the Senior Service Acquisition Managers that we established under BBP 1.0 in each of the Military Departments. We have also now assigned senior managers in OSD and in each of the Military Departments for all of the several major categories in which we contract for services: knowledge-based services, research and development, facilities services, electronics and communication, equipment-related services, medical, construction, logistics management and transportation.

Our business policy and practices for services are improving. A counterpart to the often revised DoD Instruction for Programs, DoDI 5000.02, has been completed in draft and will soon be implemented. We have begun the process of creating productivity metrics for each of the service categories and in some cases for sub-areas where the categories are broad and diverse. We are also continuing efforts begun under BBP 1.0 to improve our ability to conduct effective competition for services, including more clearly defined requirements for services and the prevention of requirements creep that expands and extends the scope of existing contracts when competition would be more appropriate. Services contracting is also an area in which we are focusing our small business efforts.

Services are often acquired outside the "normal" acquisition chain by people who are not primarily acquisition specialists—they are often acquired locally in a distributed fashion across the entire DoD enterprise. Services are also often paid for with Operation and Maintenance (O&M) funds where specific efforts have much less visibility and therefore less oversight. The results achieved as a result of acquisition practices for service procurements are often not as evident to management, nor as well publicized as the results for weapon system. We are working to correct this by strengthening our business management (not just contract management) in these areas and to identify and encourage best practices, such as requirements review boards and the use of tripwires.

In summary, I believe that we have made a good start at addressing the potential improvements that are possible in contracted services, but we have more opportunity in this area than in any other.

## **Improve the Professionalism of the Total Acquisition Workforce**

The total acquisition workforce includes people who work in all aspects of acquisition; program management, engineering, test and evaluation, contracting and contract management, logistics, quality assurance, auditing and many other specialties. All of these fields require high degrees of professionalism. I'm proud of our workforce; it is highly professional, but

there isn't a single person in the workforce, including me, who can't improve his or her professional abilities.

The addition of this major category in BBP 2.0 was the most significant adjustment to BBP 1.0. The specific initiatives included several measures to enhance our professionalism. Under the Defense Acquisition Workforce Improvement Act, the Department created three levels of acquisition proficiency. I don't believe that the standards for these levels as currently defined or implemented are adequate for the key leader acquisition positions that carry our highest levels of responsibility. We are in the process of creating and implementing higher standards for these positions. That process should conclude within the next year. As part of this initiative, we are conducting a pilot program to establish professional qualification boards. The pilot is being conducted by the Developmental Test and Evaluation community under the leadership of the Deputy Assistant Secretary of Defense for Developmental Test and Evaluation, David Brown. These boards will help to establish a culture of excellence in our acquisition career fields and DoD-wide standards for our key leaders. We are also taking steps to better define the qualification requirements for all our acquisition specialties. These qualifications will rely more heavily on specific hands-on work experience than we have in the past. Finally, we have taken steps to more fully recognize and reward our top performers. At my level, this includes spot awards as well as our standard periodic awards. We are making a particular effort to recognize the contributions of teams as well as individuals and to recognize exceptional performance in the full range of defense acquisition activities.

People matter. If there is one legacy I would like to leave behind it is a stronger and more professional Defense Acquisition Workforce than the one I inherited from my predecessors. The tide would seem to be against me because of events like pay freezes, sequestration, furloughs, shutdowns and workforce reductions—all brought about by the current budget climate. However, if there is one thing that has impressed me during my 40-plus years in defense acquisition, most of it in government, it is the dedication, positive attitude, resilience and desire to serve the taxpayer and our Servicemen and -women well that characterizes this country's acquisition professionals. Neither the public, nor everyone in Congress, nor even all of our operational communities seems to fully appreciate the nation's acquisition workforce. This country owes a lot to you; together with our industry partners, you are the reason we have the best-equipped military in the world.

I think that's a good note to close on. Thanks for all that you do.